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Dribbling fountain insights into the growth and change of a high technology start-up

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DRIBBLING FOUNTAIN

Insights into the Growth and Change of a High Technology Start-Up

A Project Report

Presented to

Dr. William Reckmeyer, Dr. Kristeen Pemberton, Eugene Hsu

San Jose State University

In Partial Fulfillment

of the Requirements for the Degree of

Master of Arts

by

Blair Dunton

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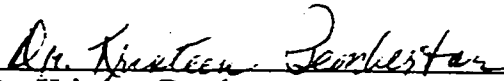
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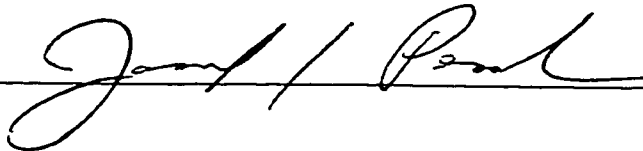


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ABSTRACT

DRIBBLING FOUNTAIN

INSIGHT INTO THE GROWTH AND CHANGE OF A HIGH TECHNOLOGY START-UP

By Blair M. Dunton

This project report summarizes the results of a project conducted as part of an independent graduate studies program. It is meant to help other people who are interested in joining or even starting their own start-ups prepare for the experience. It looks at some of the problems—such as low morale and lack of motivation—that seem to be inherent in a young start-up company due to an inexperienced management team. It shows how lack of communication and poor interpersonal skills can add to the motivational problems. It will also look at the changes the start-up goes through as it grows and becomes more stable. This report concludes with insights into what can be learned by participating in a start-up and should be especially helpful to students of organizational development and behavior or entrepreneurialism.

Introduction

This report summarizes the results of a project conducted as part of an interdisciplinary graduate studies program. It involved a year spent in an early-stage high-tech start-up, documenting the changes and growth of the company from the beginning of the third quarter 1999 to the end of the second quarter 2000. This report is meant to help other people who are interested in joining or even starting their own start-ups prepare for the experience. They may have specific ideas about start-ups and what to expect when they go to work for one—such as working 80 to 100 hours a week, too many people and computers in one room, sharing desks, and breaking fire laws. They may also have heard about the perquisites of working for a young company in the high-technology industry—such as on-site massage therapy, casual dress codes, and the ubiquitous stock options. It is the latter—the stock options and the riches they promise when the company goes public and is traded on the stock exchange—that lure the people who have the drive and the ability to work those long start-up hours. The odds of becoming a millionaire in less than three years are one in seven in Silicon Valley (Bronson 2000, xxiv), where the culture “...is wildly chaotic. It tears itself down continuously. It teeters on the brink of self-destruction. But it is a chaos unlike any other chaos. It is a *smoothly working* chaos. It is a chaos that generates endless growth” (Bronson 2000, xxvi). However, there is so much more involved in participating in a young company with an inexperienced team that goes beyond these stereotypes of start-ups.

Start-ups typically go through enormous change very rapidly, the challenges of which are compounded by a lack of leadership and communication. Silicon Valley start-

up “virtual CEO” Randy Komisar (2000) explains the situation of most start-ups in the *Harvard Business Review*: “I provide the scarcest commodity of all—leadership and experience.” The goal of this project was to gain practical experience in corporate organizational development and to determine how to apply what is being taught in the classroom. Indeed, there were several observable typical textbook examples of problems that come with inexperienced leadership, lack of communication, and the low motivation and morale that often ensues. However, no amount of classes or textbooks can prepare anyone for the real-life experience of a start-up. A primary purpose of this report is to share this experience and learning with others interested in the fields of organizational behavior, entrepreneurship, and modern business affairs.

The Project

Data for this report was gathered by the researcher acting as a participant observer in the role of a Human Resources Manager at a company called here Dribbling Fountain. In this role, the researcher had the opportunity to interact with everyone in the Company, to be privy to executive decisions and planning, and to see the varied correspondence flowing between Dribbling Fountain and such outside affiliates as venture capital firms and consultants. Everything was documented in a running journal of the researcher’s own observations of the environment of the Company and the reactions of its employees. Entries were added at least once a week; most tracked the changes taking place and the emotions of the employees as they were reported to the researcher, though some also noted her own feelings. In addition, informal interviews with employees and discussions

with members of other start-up companies helped to augment observations. Over the course of the project Dribbling Fountain began with a position of optimism and growth, experienced a very dark period of low morale and an uncertain future, and then emerged as more a focused and growing enterprise, with its future seemingly confirmed. (See Appendix A for a graph of employee morale throughout the project).

This report examines the lack of sufficient management skills and absence of adequate leadership among those in the Company who had power or formal roles of authority. It shows how the problems associated with this issue—such as inefficient communication, poor relations with employees, low morale and little motivation, difficulty growing the Company, and problems with outside affiliations—were all due to inexperienced management.

At the same time, this report documents the changes that Dribbling Fountain sustained as it passed through some of the stages inherent in a start-up. It shows how the introduction of *good* management turned the tide, enabling the Company to become even more stable and positive than at the onset of the project.

Also important is how management affects organizational culture and how that culture can affect the corporate changes. As such, this report examines how the legacy of ineffectual management and communication helped form some aspects of Dribbling Fountain's culture. To conclude, this report will discuss what the researcher learned first-hand about organizational change and behavior—with special attention to how she has grown in the process.

The Company

When research began, Dribbling Fountain was in the midst of a hiring frenzy and had grown from seven employees to fifteen in four months; they were to hire another five in the next four months. The Company closed its second round of funding shortly after the researcher's arrival, with an infusion of several million dollars from a very well-known venture capital firm. Furthermore, everyone was excited about the technology, there was a business plan, and it was time to start hiring people on the business side.

In July 1999, the Company was composed of two founders, a group of engineers, and a small administrative team. (See Appendix B for an organizational chart of the Company as it was at the end of the project, naming the people mentioned and quoted in this report). The two founders included Mitch, an academic from Berkeley who developed the core algorithm for the Company's technology, and Jake, an MBA from Stanford. Mitch was the President and Chief Technology Officer, while Jake was the Vice President of Business Development. The administrative team consisted of a controller who directed the administration of the Company, an office manager to carry out administrative tasks, and the researcher (who was part-administrative as assistant to the two founders and part-Human Resources). The employees of Dribbling Fountain were packed into three offices in a technology incubator.¹ The engineering team was at one end of the floor and the rest of the employees were at the other. There were two people to an office and five to seven in a larger room. Soon it was time to move out of

¹ A technology incubator "incubates" young companies with inexpensive office space, fax and copier access, and general administrative help such as leads for funding, etc.

the incubator to a large single room on another floor in the building and then again to San Francisco to a larger office.

The Company's products revolve around some mathematical algorithms that enable content to be distributed over the Internet to as many people who want access to that content. Currently, service providers and content providers cannot offer extremely popular content, such as the Starr report, to everyone who wants it. The problem worsens when the content includes rich media or large files, such as the Star Wars trailer. Most people cannot get access to the site in order to get this content because the site is too busy; those who have succeeded in accessing it are getting the content very slowly and are often disconnected. The Dribbling Fountain technology solves these problems. It is a revolutionary technology and it will change the way content is distributed.

As is common with many start-ups, the founders and leaders of the Company started out with a great idea, but without the background to make it happen. They needed to hire a team to develop the product and help run the Company. They found someone to be the architect; unfortunately, Leif was just like them: really smart, just out of U.C. Berkeley himself, but no experience. Therefore, the people in power had no experience directing a company, no experience developing and shipping an actual product, and no understanding of how to manage the people they began to hire.

It was this lack of operational and people experience that lay at the center of Dribbling Fountain's problems. Management inexperience and, more importantly, non-existent leadership skills brought about the problems that almost caused a mutiny and

have left a legacy of distrust and negativity. In November 1999, morale was dangerously low, productivity was drastically down, and the Company was unable to hire anyone.

Conversely, it was the leadership ability and management skills of the new CEO and the people he hired in management roles that brought Dribbling Fountain back to a state of high growth, high morale and productivity, and an assured future. Dribbling Fountain was able to reach a point where there was renewed faith in the Company, high productivity, high morale, and closing its third round of funding (for several millions of dollars) because the former executive team had been buoyed with managers who had experience and leadership skills.

Leadership vs. Management

Leadership is often confused with management. However, leadership is much more than being a rung higher on the organization chart. Today, there is a new paradigm on what makes an effective leader. A subtle difference in what constitutes exemplary leadership is good people skills (Astin & Astin 2000). A survey of American CEOs showed that personality and leadership skills were the most important traits needed for reaching the position they had attained (Greenberg & Baron 1997). Leaders produce change, but a leader's *effectiveness* lies in his or her ability to make a task or activity (and change) meaningful to others. "Leaders are great communicators. They have incredible integrity and are usually the first to recognize problems" (Malone 1999, 82). Dwyer (Beck 1999, 191) poses seven paradoxes of leadership:

1. Leaders who are strong ask for help.
2. Leaders who share power gain power.
3. Leaders who give more receive more.

4. Leaders who take the blame avoid the blame.
5. Leaders who take time save time.
6. Leaders are not technicians.
7. Leaders do not lead (rather they influence others to act).

These paradoxes suggest that leadership involves relationships.

To further illustrate the importance of the soft or people skills in leadership, managers in Beck's text (1999) summarize leadership characteristics into four elements: character, concern, competence, and communication. Character identifies the inherent qualities needed to take charge; these include being innovative, ethical, courageous, and persistent. Concern represents the leader's focus on others rather than on himself or herself and includes being considerate, helping others grow, sharing power, and having a sense of humor. Competence implies vision and the ability to be a life-long learner, and to be task proficient and able to understand the issues. Communication is the final key that puts the other three into motion; the leader must be approachable, informative, and interactive as he or she builds coalitions.

Leaders create and engage in humane and open work cultures, treat employees with respect, involve others in decisions, use problems as opportunities to involve people, build open, trusting relationships, and create and demonstrate changes (Phegan 1999).

Management, on the other hand, encompasses the four elements of planning, organizing, controlling, and leading. Planning involves setting performance objectives and identifying the actions needed to achieve them, while organizing is dividing up tasks and arranging resources to accomplish the objectives. Controlling involves monitoring performance and taking corrective action as necessary. Finally, leading is creating

enthusiasm for others to work hard to accomplish tasks successfully (Phegan 1999). It is this “leading” that makes managers into leaders that exhibit the traits described above.

Management focuses on guiding projects, deciding on deadlines, and organizing processes. It can be cast in a negative light in that managers are the ones that give employees reviews and subsequent raises; they make the rules that employees have to follow, and they drive the direction of projects. Management applies to power, while leadership is broader; whereas management is a formal appointment, leadership encompasses both formal and informal designation (Beck 1999).

Leaders create the essential purpose or mission of an organization and the strategy for attaining it. Managers implement that vision. Managers plan and monitor results, while leaders establish direction by creating a vision of the future. “Management is doing things right; leadership is doing the right things” (Covey 1990, 101).

Both leadership and management skills are necessary. Managers are needed to help guide employees through objectives and tasks. Managers and hierarchy are important for the organization and follow-through of any team. Managers implement leaders’ ideas and concepts, giving tangible and sustainable form to an innovation, idea, or business direction. The ideal is a manager who has all of the skills and attributes of a leader. A leader who is in a position of authority has the power to get things done and already has the adherence of subordinates. A manager who is a leader can bring about change and growth through the vision of a leader and the productivity of team members who support their leader. In today’s less hierarchical organizations, especially in the

smaller start-ups where the visionaries are also implementers, managing by leading is the only viable course of action.

Leadership and Management at Dribbling Fountain

Clarification of Roles and Responsibilities

Unfortunately for Dribbling Fountain's employees, there was little organization and management; moreover, there was even less evidence of leadership skills. During the time before the new CEO was hired, there were several major examples of bad management at Dribbling Fountain. One problem was that the executives often had difficulty defining employees' roles. Several people were frustrated by the fact that they were doing jobs quite different from what they had thought they had been hired to do. The Human Resources Manager had clearly explained that she didn't want to do any recruiting, but she still played a major role in the recruiting process. Even today there are several people with PhDs in Computer Science who had thought that they were going to conduct research for the Company, but who are still programming the technology.

A richer example involves a young woman, Valerie, who was hired into the Marketing department as a product manager. However, she was first put in charge of the Quality Assurance (QA) department because she had had prior consulting experience with a QA team. That experience did not prepare her to manage a QA team, though, nor to write up a Testing Protocol Document.

The issue with Valerie is very informative from a human resources and organizational development point of view, especially in terms of revealing the poor quality of the managerial and leadership skills among upper management at Dribbling Fountain. She was

very frustrated and unprepared in her role as QA manager and, therefore, was an unfeeling manager of the people below her in return. She had little patience and demanded that they do what she commanded, subsequently losing their respect and compliance. However, it is also part of her manager's responsibility to mentor and help her with her managerial duties. There was no such mentoring or help. The fact that she was a bad manager was a reflection of her own manager's leadership skills. She was not hired to manage others, nor was she hired to work in the QA department, yet she was expected to carry out these duties appropriately.

When Valerie requested a marketing position from Jake, he delayed his response. Valerie later confided in the Human Resources Manager that she was going to quit because she was not doing the job she had agreed to do. The Human Resources Manager asked her to give the Company the opportunity to change the situation. The HR Manager went directly to Jason, the "Interim Vice President of Marketing," who had recently joined Dribbling Fountain to lead the marketing strategy until the Company could hire someone permanently. As the VP of Marketing, he was Valerie's direct superior. The Human Resources department was under the impression that Valerie was very valuable because she was the only marketing person. The Company had worked very hard to get her to join the company, beating out a big name company in the same industry, and she had more real-life experience than the rest of the employees. The HR Manager felt that it was her duty to inform Jason about his subordinate's frustration with the Company. He didn't want to be involved. That manager was later reprimanded for getting involved and for involving Jason. But neither Jake nor Jason did anything to improve Valerie's

position for another month, at which time they allowed her to do product management as well as QA management.

Valerie worked for three months under Jason without his acknowledging that she was his direct-report. She had to go through Jake to get her instructions and feedback. Jake wouldn't give her anything to do because he said that she worked for Jason. Jason always maintained that Jake hadn't told him about Valerie and what her role was.

Jake's and Jason's disrespect for Valerie set the tone for the rest of the employees to not respect her either. She couldn't get her work done because the engineering architect wouldn't finish his part in time. When she went to Jason with the unfinished work, he blamed her for not getting the architect to do his job. The disrespect and frustration of the ambiguity of her role contributed to her ineffective management skills.

The Valerie story ends with her threatening to quit for a third time, being asked to stay, and then being fired the day she returned from vacation. Unfortunately, most people were not sorry to see her leave: her subordinates did not like her; her peers did not respect her, and her superiors felt that she was ineffective. Whatever her skills and successes, the management team should have decided that she was not a fit and let her leave when she wanted to, or they could have worked with her to determine how the company could best benefit from her contributions.

Ego and Attitude Problems

Portnoy has observed that "a foolish leader is seduced by self-gratification and proceeds impulsively without due consideration for the dangers that can potentially bring defeat, humiliation, and harm" (1999, 115). This was certainly the case at Dribbling

Fountain, where the management team's personality characteristics added to the problems at the Company. Mitch, Jake, and Leif let their egos get in the way of working compatibly with people, making appropriate decisions, and doing what was right for the Company. For example, Peter, an engineer with more experience building and shipping an actual product, told the researcher that Leif worked on a very academic level and that he had designed an architecture which, although it may have showcased his skills in theoretical computer-science, was too unwieldy and much too complex to develop soundly, let alone quickly (Keirkegaard 2000). Unfortunately, Leif's ego would not allow him to listen to more experienced subordinates' warnings.

Jake's ego, too, caused problems. In fact, Valerie almost didn't take the job with Dribbling Fountain because Jake's attitude was so offensive. "I wasn't going to join because [Jake] was so cocky and stuck-up... but then I talked to [some employees] and they were really nice so I decided 'what the heck?' " (Kumar 1999). It's the opinion of many that Jake's egotistical manner dissuaded others, including classmates of his, from joining Dribbling Fountain. One candidate did mention that he was going elsewhere because he would rather work with the people at another company. Jake is in Business Development and has mastered the art of networking and glibness. Unfortunately, his interactive style often relies on verbal belligerence followed by attempted reconciliation; he believes that he can treat people inappropriately and then smooth things over with niceties. He used this tactic with Valerie and uses it regularly with me. He even tried this approach with potential business partners, but it backfired—those companies are no longer considering a partnership with Dribbling Fountain. Early on, Jake also offended

the people in one of the more influential investment firms that invested in Dribbling Fountain. Regrettably, this behavior helped build a negative reputation for Dribbling Fountain as well as for Jake, and it remains to be seen what further detrimental effects will unfold.

On another note, it was very important for the Company to promote itself as an academic, highly-educated group when recruiting new employees. Mitch is a notably acclaimed academic from Berkeley, while Jake is a Stanford MBA graduate. Anyone from these two schools was routinely considered, but equally talented people from less prestigious schools were held to a higher standard or not considered at all. Furthermore, they only wanted to hire MS or PhD graduates. It is very difficult to find Masters of Computer Science from a top school willing to do Quality Assurance! As a result, the Company now has several PhDs with no experience and few experienced engineers. This also reflects the management team's inability to think ahead. By hiring people with no experience in developing a product and bringing it to market, the Company slipped further and further behind in its schedule for launching the product. When the researcher first learned about Dribbling Fountain, the website stated that the launch would be in third quarter 1999. Now, over a year later, it still has not launched.

Disrespect Towards Others

Related to this attitude problem was the management team's disrespect towards many people. It was perceived that Jake did not respect potential partners or the venture capital firm. The venture capital firm's CEO hesitates to work with Jake again because of Jake's attitude toward someone of his esteem. More damaging, however, is the way

that Jake and Mitch treated employees when they were the executive team of the company. For example, Elizabeth, the Controller, was the fourth employee hired. She had worked for Dribbling Fountain for over a year but was never given a raise. She was expected to manage facilities, operations, and the office as well as carry out her controller duties. Jake and Mitch never gave her the authority to sign checks, authorize changes at the bank, or make any major decisions on her own. Yet she was the Controller. Valerie is another good example of disrespect and lack of trust in an employee. They didn't trust her enough to let her do the job she was hired for; nor did they respect her enough to communicate with her and with others to help her get her job done.

Another example of disrespect towards the employees involved Mitch, who didn't get an aisle seat on the airplane after changing his schedule at the last minute. He felt that this was his assistant's fault because she had made the reservations. Mitch complained to Jake that his subordinate (the assistant) couldn't do her job and then sent out a memo to the entire administrative team that the Company should hire someone to do scheduling full-time and not have someone who approaches travel arrangements for others as a "hobby." He maligned an employee to her superior, belittled her in front of others, and was very insensitive and very unsympathetic. This is the opposite of a leader. Instead of concentrating on important Company affairs and trying to move things along, he dwelt on small personal problems that had little impact on the overall welfare of the company. His assistant was demotivated, depressed, and angry. "I feel like quitting; I haven't gotten anything done in a week" (Duncan 1999).

Decision Making

Transcending all of these examples was an underlying inability to make effective decisions. Capable decision-making is one of the most important managerial skills. Decisions must be made for everything involved in growing the Company and driving the business. The leaders of an organization need to make effective, well thought-out, fast decisions for everything from which copier to get to whom to target as a customer to determining the business plan. It is difficult to gather all of the necessary information involved before a decision has to be made; therefore, people tend to rely on intuition and judgmental heuristics such as past experience to make decisions (Greenberg & Baron 1997). Many choices or paths are “satisficing” decisions, in which the decision-maker selects the best choice of the alternatives shown within the time allotted.

Dribbling Fountain’s management team often took much more time than was available and relied on their personal taste to make decisions, rather than focusing on what was best for the Company. For example, all of the choices related to choosing and furnishing the new office in San Francisco were made primarily based on what were the trendiest options available, not necessarily the most functional or practical for the Company’s purposes.

Other instances of difficulty with decisions include situations where the administrative staff could have, and should have, made a decision themselves—such as choosing a healthcare provider or a wireless phone. Mitch and Jake made sure that the decisions followed what would benefit themselves the most, rather than what would be most beneficial for the Company. Jake needed to be a part of every decision, no matter

how trivial, so he often second-guessed the administrative team's decisions or did not let them decide at all. An unfortunate consequence of this is that now the members of the administrative team members don't dare make decisions on their own, which slows down the process of getting things done.

Communication

Communication may be the single most important aspect of good leadership and a strong company. "Effective communication enhances the likelihood that an organization will succeed in meeting its objectives, while a lack of effective communication will impede organizations. Communication forms the lifeline of an organization, conveying directions, expectations, processes, products, and attitudes" (Beck 1999, 384).

Furthermore, communication climate can have an effect on the overall culture of an organization. It is the manager who most influences the climate by setting the tone verbally and non-verbally, through actions and omissions (Beck 1999). It is inevitable that organizations change and that after the initial planning and organizing, managers must often adapt those initial plans but, at the same time, also direct and control based on ongoing circumstances.

In other words, management uses communication to keep employees informed about changes going on in the company and to keep the work on track in view of these changes. Management must convey to the employees where the company is going and how each individual contributes. This is important for motivation, in that people want to be a part of something, and for morale, as people want to know why they are toiling on a project and what it means to the overall plan of the company. Communication is

important, therefore, for reasons other than keeping projects on schedule. Management also needs to let the employees know why some of their actions are important, such as the timing for hiring or the reasons for firing, and when and why there is a change in policy or in the business plan.

In a young start-up company, where the focus and business plan are in constant flux as the team struggles to determine the target customer, the best approach, and what exactly is the product of the future that their team is developing, communication of changes and input from the trenches is doubly important. Dribbling Fountain is very small and flat hierarchically, so there is no reason for communication not to flow freely top-down, bottom-up, and across the company. People cannot NOT communicate (Beck 1999). People will communicate with each other even if they do not have information to share. Dribbling Fountain has a very fast and very strong grapevine. Unfortunately, there is too little information coming from the top, so the information from the grapevine is usually incorrect, is based on assumptions, and continues to flow unchecked. Several misconceptions bred in this grapevine included misinformation about the organizational hierarchy of the Company, an out-of-proportion concern for job security, and a lack of understanding about one's own role, let alone the roles of others.

One of the problems in Valerie's case was a lack of communication between her and her managers about their expectations, as well as between her previous manager and her new manager about her role. Also, there was no communication to the entire Company that she was a manager who required everyone's cooperation. If that had been

conveyed in the beginning, everyone would have understood her role better and that they should respect her.

Another example of poor communication of roles was when Leif, the architect, went away on vacation for one month. There was one other person, Joe, who was as skilled as Leif. He was second-in-command and was supposed to take over when Leif left for this long vacation. Unfortunately, no one told Joe that this was what was expected of him. And no one told the engineers that Joe would be in charge. According to Jake, the executive staff believed that Joe would realize their expectations and assumed that the engineers would automatically follow Joe as their interim manager. Ironically, it was during this month that more got done and morale was at its highest ever. Part of the reason for that was because the engineers don't like Leif, especially as a manager. People were able to work on their own without micromanagement. When Joe did finally realize his interim role and began managing the development team, all of the engineers respected him and worked hard for him. However, the executive team decided that Joe couldn't take on a more managerial role because he hadn't shown the initiative to take on the role expected of him.

Communication on the whole has always been insufficient at Dribbling Fountain. Every week there is an all-hands meeting where everyone says what he/she has been working on and what he/she will be working on during the following week. This is the time when the leaders can let everyone know what is going on with the Company. Last year, as the Company was developing and as morale was slipping, less and less information about the state of the Company was disseminated. People became frustrated and

unmotivated. No one knew what exactly he or she was working on, why he or she was working on it, and how it all fit together. The latest business plan had been written in February and it was now November. The product was supposed to have been launched in the third quarter, but the engineers weren't even clear on what they were developing.

The grapevine has always been the strongest and most prolific form of communication at Dribbling Fountain. People's misunderstanding of situations is fueled by this extremely fast informal mode of sharing information. For example, Dribbling Fountain had been looking for a Vice President of Engineering for a long time. The Company had a search firm helping for a while, but then discontinued their services. The reason for this was because the new CEO had a lot of contacts to pursue rather than continue with the recruiters. However, only management and Human Resources knew this. The rest of the Company only knew that the search for a head of engineering had stopped. Everyone felt that Leif was an unfit manager, and all of the engineers were petrified that he was to become the head of Engineering. He already led the Engineering team, but to have him appointed officially as the head or Vice President of Engineering would have been insufferable for the majority of the engineers. No matter how many times Human Resources told people that Leif would not be the new Vice President of Engineering, the grapevine was too strong, and no one believed it.

Another example of how the employees' collective unfounded fears could not be allayed involved a QA manager who was fired two months after being hired. Everyone wanted him to be fired, but once it happened people grew nervous about their own job security. By February 2000, Dribbling Fountain had fired six people in eighteen months

of its existence—25% of the Company! This is part of the reason why people were nervous after the firing of the QA manager. There needed to be some sort of communiqué to quell their fears. Craig explained that he was going to disband the QA department altogether and, thus, the team no longer needed a QA manager, but this didn't seem to be enough. It is unclear what more he could have done or said. It is this researcher's opinion that the fear was related to the prior terminations that were not accompanied by appropriate explanations.

The issues surrounding the QA manager show another example of poor communication—this time bottom-up. People were constantly complaining to each other about how inept he was, but no one brought it to management's attention, probably because they didn't trust management to do anything about their complaints. The man worked for the Company for two months with everyone whispering about him, but no one told the people who could make a difference. In the end, the perceived incompetence of the QA manager had reached such overblown proportions that there was no other recourse but to lay him off; he couldn't be kept on as the engineers had no respect for him and wouldn't work with him. In this situation, if the concern about his abilities had been conveyed to the management, the situation could have been looked into and possibly solved in a better way.

Motivation and Morale

Some of the most significant manifestations of these leadership weaknesses were the effect they had on employees. Lack of communication, coupled with a vivid imagination that fueled the grapevine, led to demoralization and an unmotivated team.

There was a point when morale was so low it was palpable. People were making bets on who would leave first. Most people declared that they would stay for one year to get some vesting on their options and then they would be “outta there” (Peters 1999). No one worked the fabled 80 to 100 hour weeks; the Company was lucky if people worked ten hours a day. The engineers came in late and left early.

Part of the problem was the ambiguity of roles and one’s expected contributions. People need to feel that they are adding value to a company (Gomez-Mejia, Balkin, and Cardy 1998). In Dribbling Fountain’s case, no one could see how their part of the product was relating to the other parts. There were three teams working on three different aspects of the technology: the server, the client, and the core. Everyone felt as though they were working in three different departments on three entirely different products, and no one could understand how it all fit together. Several engineers told the researcher that they all had different ideas of what they were making and why; moreover, those ideas differed from management’s ideas. Herzberg’s motivator-hygiene theory (Gomez-Mejia, Balkin, and Cardy 1998) lists recognition and the work itself, or the outcome of it, as motivators. When there is no recognition, or when no one knows what exactly he or she is supposed to achieve, there is no motivation. Likewise, if the outcome of the work is unclear, then there is no motivation. People at Dribbling Fountain were confused about the product, the work they were doing, and the value they were adding to the Company.

Herzberg’s theory further points out other job content motivators of responsibility, achievement, and opportunities for advancement. Even though Dribbling

Fountain boasts highly educated, smart, potentially self-actualized employees, there has been no job enrichment, no recognition, and no mentoring for personal development. There has only been job enlargement, which does not motivate high-level employees. For example, the Human Resources Manager is finishing up a Master's degree in organizational development and has experience in team building. However, she is so busy with administrative tasks as Dribbling Fountain has grown that she has no time for thinking about the more interesting and challenging aspects of her job. She would like to do more organizational development, team building, and research on such matters as compensation analysis, but there are too many details to complete before she can turn her attention to these projects. The work that she spends the bulk of her time doing has no apparent significance nor task identity and generates little feedback. She can't see the significance underlying most of what she does, and it is difficult to see results. According to Hackman and Oldham's job characteristics model (Shermerhorn, Hunt, and Osborn 1997), her job is not enriched; therefore, she is not motivated. Others may feel the same way. It has been suggested by the office manager that she, too, is very bored with her job and that she would welcome both job enlargement and job enrichment (Nelson 2000). The technical writer left the Company because he did not have enough work to do. Furthermore, the work he did have was not considered (by the engineers) to add as much value as what the engineers produced.

Alderhofer's ERG theory has three categories of needs that must be fulfilled in order to have a fully motivated employee: existence needs of physiological and material well-being; relatedness needs of satisfying interpersonal relationships, and growth needs,

which encompass the desire for continued personal growth and development (Shermerhorn, Hunt, and Osborn 1997). Dribbling Fountain does provide all comforts for physiological and safety needs from food to ergonomic furniture to a security guard. Even the relatedness needs are taken care of as the team, on the whole, is quite cohesive (anyone who did not fit is no longer with the Company). However, the growth needs of Dribbling Fountain employees are not being met, as people are not getting the respect or recognition they deserve. Up until April of this year, there had never been any recognition paid or reward given to any employee for a job well done. Since management didn't trust employees to do their jobs, the employees could not achieve self-actualization, in that they didn't trust themselves to achieve their full potential. Many times this researcher has doubted her own ability and opportunity for advancement.

Dribbling Fountain management doesn't set goals; people have short-term objectives or tasks, but no long-term goals. Locke and Latham's goal-setting theory states that goals act as motivators because people can determine what is needed to succeed (Greenberg and Baron 1997). The goals make it clear exactly what type and level of performance is expected and how well one is performing. Again, before April 2000, no one in at Dribbling Fountain had ever had a performance appraisal or job definition so as to know what was expected.

In this tight job market, especially for technical personnel, Dribbling Fountain cannot afford not to change how it treats its employees and must take action toward improving the morale and motivation within the Company.

Change

Fortunately for Dribbling Fountain and its employees, the Company was able to turn itself around with two actions in December of 1999 – an off-site meeting and the hiring of a CEO. The meeting did all the right things: included everyone and invited everyone to participate in discussions about where the Company was going, clarified the Vice President of Engineering search and Leif's position, and gave the employees an idea of the Company's vision. Unfortunately, there was still no follow-up about what exactly had been decided, and employees couldn't see how they had contributed. However, the fact that management asked for their input and clarified the direction of the Company helped bring morale up enough that few people were affected by the departure of the controller a few weeks later.

The CEO is someone who has extensive experience managing process and departments as well as people. Everyone thought that Craig, the CEO, would be the Company's saving grace: "Oh, he's from high up in [large big name company in the same industry] so he will bring some management and vision" (Hanson 1999). "Great! Now Jake and Mitch won't be the only ones in charge and we will have someone with real management experience" (Barbarino 1999). This researcher was worried that people would be disappointed because he couldn't change people into good managers, and he wouldn't be able to solve the problems that had grown out of resentment and personality conflicts. However, it was apparent that he would bring to the executive staff the direction and decision-making skills that were lacking so much. He would help in developing process, driving the vision of the Company, and making things happen.

Craig has not disappointed anyone. He is also much more approachable than the founders, and he has hired people to do what he can't do himself. He hired Jerry to be Director of Engineering, with a charge to replace Leif as the head and get the Engineering team into a more productive mode and developing a product. Jerry, in turn, developed more processes to organize productivity and was the manager that had always been needed, so people were generally happy. Morale was high and thus productivity was high. Jake was demoted to Director of Business Development and removed from the Board of Directors, taking away some of his power and positional authority. Together, Craig and Jerry brought Dribbling Fountain to a thriving, growing company with high morale and hard-working, motivated employees. Craig brought vision and direction; Jerry united and solidified the engineering team. Then the Company hired a Vice President of Marketing, with experience running teams and leading people, who has designed a new business plan with certainty and vision. This new executive staff lets people do their jobs and doesn't micromanage their work. In return, people feel empowered, trusted to make the right decisions, and motivated to do their job right.

Some of the improvements that Jerry has brought to the product development process include more meetings. There is now a weekly administrative meeting that includes the executive staff and the administrative support staff so that processes can be considered, developed, and implemented. There is also an executive planning meeting that calls for the leaders of the Company to continuously check and shape the progress of Dribbling Fountain, determine what other processes need to be put in place, and discuss the general state of the Company. Jerry has also instituted an all-hands meeting in

Engineering, where he not only talks with the engineers about what they are doing and about the progress of the department, but he also disseminates pertinent information about the Company that people wouldn't generally be told, so communication is complete. All of these new meetings mean a lot of time away from one's individual tasks, but the increased communication, better organizational effectiveness, and improved morale all make these meetings very valuable, as people feel included in what's going on in the Company and know what their roles are.

Having a high-profile CEO has also brought more visibility to the Company. It has become easier to attract candidates, as both current and potential employees see his leadership and feel better about being part of a company that is strong. There has been movement in recruitment from young go-getters with no experience to people with experience. Also, he has brought more interest to the Company in terms of investors, partners, and customers. Everyone has become a lot busier, but an internal intranet has been built to improve communication and keep people informed of new documents that have been written or new policies that concern the Company.

On the other hand, there are more layers in the hierarchical organization of the Company. This is not very popular with the employees, who feel that they work for a small company where everyone is equal and, therefore, there shouldn't be more hierarchy. "This is not IBM" (Wallis 1999), they say. They are also upset about being in meetings and interviews so often. However, there is a need for more management, more experienced employees, and more process and communication. The increased

meetings help with that, and it is important to include everyone involved in recruiting more people for the team. The Company is still very flat, with little hierarchy.

Culture

Culture has a strong effect on the morale, motivation, and productivity of a company. Since Dribbling Fountain is a very young company, it has the opportunity to develop its culture to be strong and supportive. As a technology company, the product is very important and the engineers who make it are the “most valued” employees. The Company has hired highly educated and very talented engineers. They are pampered and catered to. The result is an elitist feeling that the engineers are better than others, leading to a spoiled engineering team that continually feels it is entitled to more and more from the Company. Dribbling Fountain caters lunch daily and actually flies bagels in from New York! Any kind of software need, toy, or snack that the engineers want is bought quickly and with no question from the accounting department. If someone from another department requests something, however, it will only be furnished once that person gives—in writing—an explanation of what it is for, how much it will cost, and the benefits of getting it.

Furthermore, the disrespect that the managers have shown to the non-technical team reinforces the elitism of the engineers and condones the engineers’ disrespect of others. The introduction of a Director of Engineering, although he is fair and exhibits the leadership and management qualities summarized in this document, makes matters worse because he is very skillful at acting as employee advocate for his engineers, getting what they need, and removing obstacles for them. It is significant that, as of April 2000, six of

the nine non-technical people who had worked for Dribbling Fountain since its inception were no longer with the Company. Of the seven people who had quit the Company, only two were technical, and neither of them was really part of the engineering team. Lack of respect from management and from others was one of the main reasons for many of them to leave. This is very high turn-over for such a young company; it is interesting to note that it is the non-engineering staff that are leaving the Company. Part of the reason Dribbling Fountain was having so much trouble hiring QA engineers is probably related to the elitist separation of engineering and QA, the general feeling being that QA is something performed only by lesser engineers or people who can't be considered engineers at all really. Even if someone had been hired, he or she would be entering into an atmosphere where he or she would be denigrated and considered as second-class.

Conclusion: Lessons Learned

I could not have taken a better class than the one I have been participating in at Dribbling Fountain. Everyday I am observing and participating in organizational change. I see the satisficing decisions made. I experience first-hand the problems resulting from incompetent management and lack of leadership skills, as well as the positive effects of having *capable* management and top leadership at the helm. I can see the changes as the Company grows, becomes known, develops a serious business plan, begins talking to customers, etc.

Before working for Dribbling Fountain I had never worked in an organization like those which I had studied in school. I had taken courses in organizational behavior, organization development, communication, and systems thinking. Dribbling Fountain is

a live case study of all of those classes. It is my hope that others may learn from what I have experienced and tried to share with this synopsis of a year in a start-up. The problems and changes and positives do not fit into the boxes of the theories in my textbooks; there are also no applicable solutions hidden in the pages of the articles I have read. However, it is exciting to see that the Company follows some of the theories to some extent and that we are not alone in our struggles to grow, change, and become a healthier, better, stronger company. There are several interesting books that can further one's understanding of the start-up phenomenon. *The Nudist on the Late Shift* by Po Bronson (1999) looks at the culture and the kinds of people who are part of this new breed of organization. I also highly recommend *The Monk and the Riddle* by Randy Komisar (2000) who has been involved with some of the more successful, or at least famous, start-ups in the Silicon Valley—such as GO, WebTV, and Tivo.

All that I studied, though, did not prepare me for the job I have undertaken at Dribbling Fountain. I thought I would be able to put some of my education to work to solve some of the organizational problems in the Company. What I quickly learned, however, was that I was not able to apply anything I had learned to what was happening at Dribbling Fountain. All those books and all those classes brought nothing to mind on what I could do for the Company; nothing quite fit. Worse, even when I recognized a problem and what was needed to rectify the situation, such as the communication issues, I was not in a position of authority or respect to be heard or listened to. I found myself getting very frustrated with the tedium of my job that had turned out to be more administrative than organization developmental.

In writing the journal, I found that it was much easier to write when there was something to complain about, and it was difficult to find good things to write about. During the month of November 1999 when morale was so low, I was writing in my journal constantly, talking to the employees, and getting demoralized myself. I have really learned that there is a lot of inequity in the world and that it troubles me. I don't like catering to the engineers, giving them interest-free loans when our office manager is living in a homeless shelter. I am frustrated by the self-absorption of the people in these start-ups who make so much money and yet feel entitled to so much more from their companies. I am disgusted by the greed and gentrification and change I see in the society around me that is a direct result of the many millionaire-producing start-ups in Silicon Valley. I am worried that these things won't bother me if I stay in this industry for too long.

Epilogue

September 29, 2000: The stock market has changed its views of Internet start-ups and many have failed. The numbers mentioned of millionaires and of young people striking it rich have probably changed. Without having the latest statistics, it is obvious that the landscape has changed in this regard as more start-ups go out of business. Dribbling Fountain, fortunately, has all of the components necessary to survive in the future. Guy Kawasaki is a famous high-tech "evangelist" and is the CEO of a company that helps start-ups find investment money and bootstrap themselves to relative stability. According to Mr. Kawasaki (2000), the successful companies of the future will be in the networking infrastructure industry, have a pure science technology, and already have

good funding. Dribbling Fountain has all of those ingredients. He also says that venture capitalists look at the “team first, the team second, and the technology third” (Kawasaki 2000).

Although Dribbling Fountain already has funding, having a stellar team to implement the technology and bring the product to market is very important. At this point, the end of third quarter 2000, it is unclear if Dribbling Fountain has that team. If the management team does not improve, it will be difficult to retain the core group of employees we have now. Jerry, the Director of Engineering who brought so much to the company with his organizational development skills and his introduction of process, has not remained consistent in his attitude. He is often surly and reprimands people in a most negative way without focusing on solutions for the future. Since the collection of data and the writing of this report, Jerry’s behavior and its impact on the employees has become a serious morale issue. One employee who was especially denigrated by Jerry has lessened his work hours, demotivated and resentful.

One reason Jerry has changed is that he is trying to run the engineering team, and there is no Vice President of Engineering to guide him, so he is getting overwhelmed. Two other Directors have since been hired, but Jerry holds the unspoken title of “head of Engineering.” This phenomenon probably added to Jake’s management challenges as well when he was trying to run the Company, manage the administrative staff, and do his job in Business Development. Things are not progressing as Jerry had hoped; he feels that there are a lot of office politics concerning him, and he is suffering from low morale and lack of motivation himself. Unfortunately, just as frustration added to Valerie’s

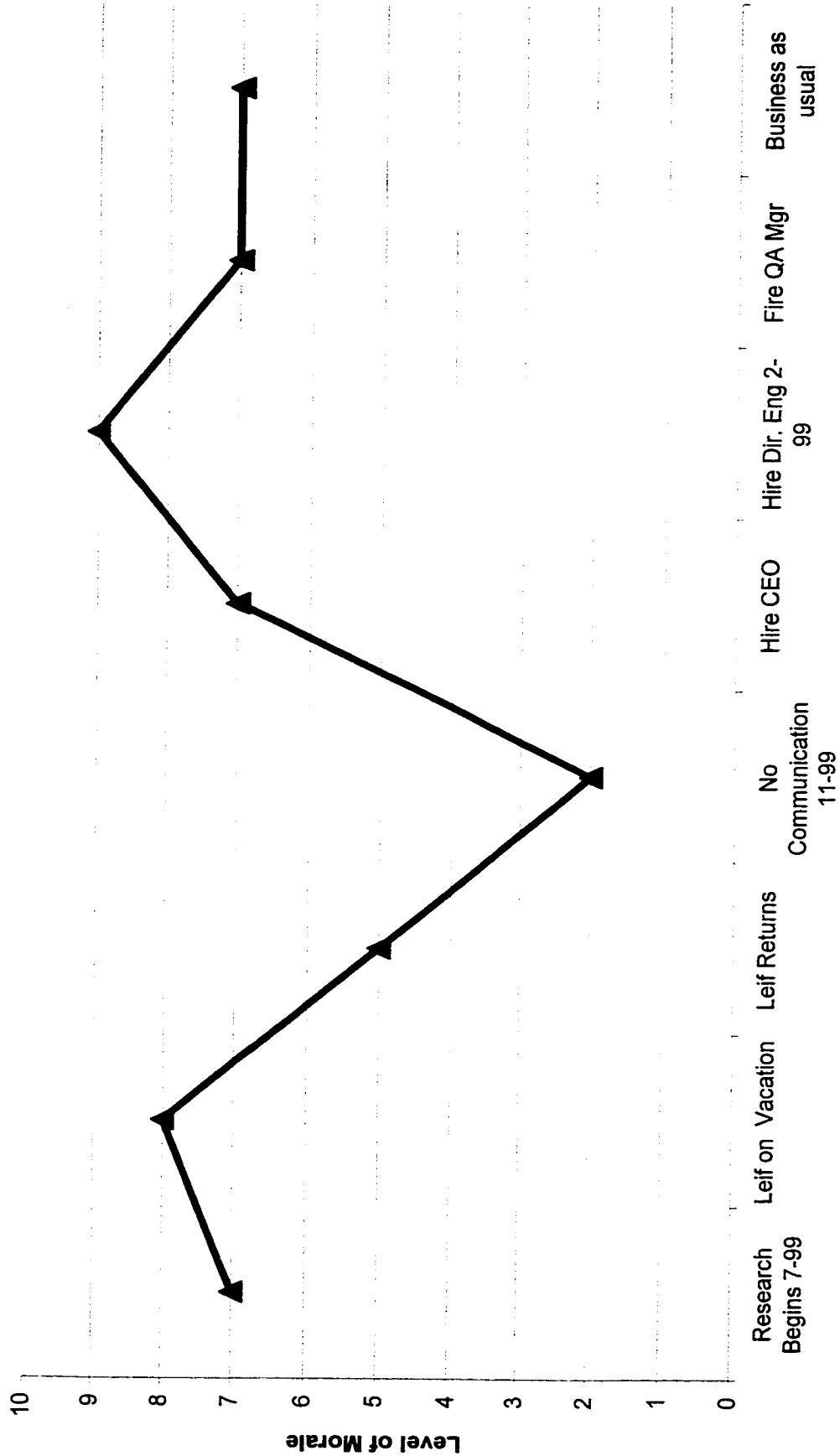
mismanagement of others, so too is Jerry letting his own frustrations affect how he interacts with others. Once again, morale is very low.

Dribbling Fountain seems to be following a cycle. Last year early in the third quarter morale was very high and the company hired several employees. Then, inexperienced management and lack of communication began to wear on people and morale sank dangerously low. This year, morale seemed high as Dribbling Fountain entered third quarter. In July six new employees joined the company. However, morale is already as low as it was in November of last year, and it is now only September. This project ended in April, but so much has changed since then, and yet so much stays the same. Again, the company has fired more people, including a vice president, and another long-time employee has left. Communication is still lacking and there are some obvious problems with the leadership skills of the management team.

Part of the make-up of a start-up is that change is constant and inevitable. Dribbling Fountain's product has changed completely, as the Company has now become a hardware company, selling servers that have the technology inside. If research had continued another semester, there would be more changes in the employees, the product, and the management. In fact, the company is moving again, this time to Fremont. This researcher looks forward to seeing these changes and observing the effects they have on the employees.

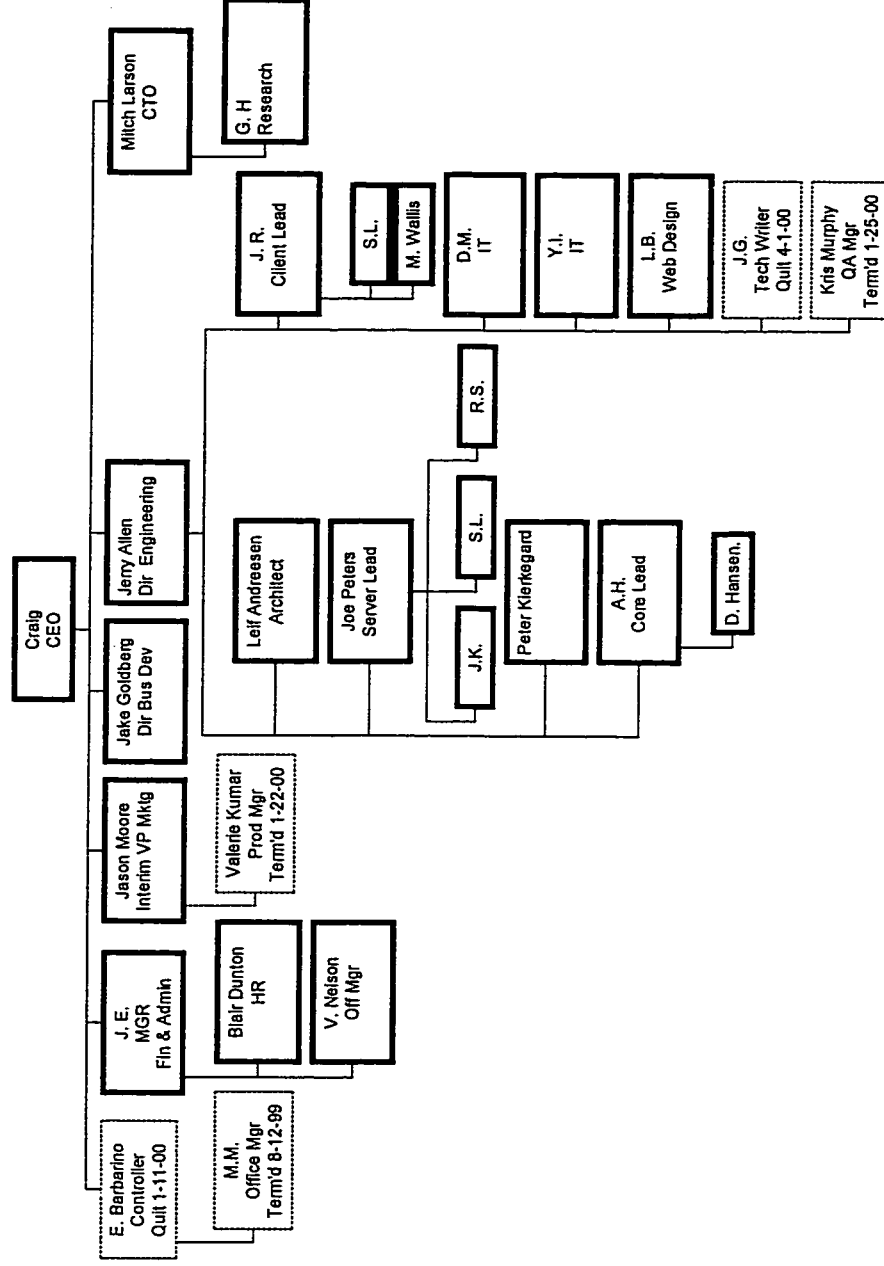
Appendix A

Dribbling Fountain Morale



Appendix B

Dribbling Fountain April 2000



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